

AUDIT AND RISK COMMITTEE

23 September 2014

ANNUAL FRAUD REPORT 2013-2014

Report of the Director for Resources

STRATEGIC AIM:	All
----------------	-----

1. PURPOSE OF THE REPORT

1.1 To provide an overview of any fraud related activity, which has affected Rutland County Council during the period 2013-2014 and to provide an assurance regarding the Council's resilience against this form of abuse. This is in accordance with the Committee's Terms of Reference to provide assurance of the adequacy of the risk management framework and control environment.

2. RECOMMENDATIONS

2.1 **That the Audit and Risk Committee note the content of this report and the control mechanisms in place to mitigate risks.**

3. REASONS FOR THE RECOMMENDATIONS

3.1 The Audit Commission's latest report estimates fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion. Every pound lost through fraud cannot be spent on providing public services.

3.2 Fraud is defined as a deception deliberately practiced in order to secure a gain (or cause a loss). Under the Fraud Act 2006, there are three main ways to commit fraud:

- Fraud by false representation
- Fraud by failing to disclose information
- Fraud by abuse of position

3.3 These categories can be applied to any fraudulent activity that the Council may, at times, be subjected to. For example, false representation may occur during the recruitment process, failing to disclose information may arise during the register of interest process and abuse of position could occur in a social care setting.

3.4 Councillors and Officers have a crucial role in supporting the right approach to deter and detect fraud. For example:

- Ensuring the Council understands local fraud risks.

- Comparing the Council's performance against countering fraud with similar Councils.
 - Ensuring counter-fraud resources are proportionate to risk and local harm.
 - Encouraging the Council to focus on deterrence, by widely publicising action against fraudsters.
 - Increasing staff confidence in the Council's whistleblowing arrangements through corporate leadership and support for those who report concerns.
- 3.5 This report seeks to demonstrate that Rutland County Council has a robust counter-fraud culture and effective counter-fraud arrangements in place. Fraud risks are managed effectively therefore preventing harm to the local community although it should be noted that fraud is recognised as a growing area of risk and the Council is not immune to these increased levels of risk.

4. COUNTER FRAUD STRATEGY

- 4.1 The Council's Counter Fraud Strategy forms part of the Constitution. The document was last reviewed in 2012 and is scheduled for full review in 2016. However, due to a change in lead officer responsibility for counter fraud arrangements, certain changes need to be made to update the Policy accordingly.
- 4.2 The Strategy is made up of the following elements with a clear theme of individual responsibility placed upon Members and Officers for their own conduct:
- Prevention
 - Detection
 - Investigation
 - Retribution and restitution
 - Use of deterrents
- 4.3 The Council's arrangements for dealing with the risk of fraud are considered by the external auditors. Progress reports against the Strategy are also brought to this Committee periodically by the Welland Internal Audit Consortium.

5. BENEFIT RELATED FRAUD

- 5.1 The biggest challenge for any Council is benefit-related fraud. The Council has a formal arrangement in place through a Counter Fraud shared service agreement with Corby Borough Council; this has been in place since 2010 and is referred to as CRAFT. All suspected cases of fraudulent claims to Housing Benefit, residual Council Tax Benefit and Local Council Tax Support are investigated by CRAFT.

- 5.2 The benefits of this arrangement include increased resilience for the Council in capacity to investigate such matters and training in the prevention and detection of fraud.
- 5.3 During 2013/2014 59 cases were referred to CRAFT for consideration. Of these, 22 customers received a compliance letter, which is a first stage warning letter; three received a formal caution as an alternative means of disposal and two entered into an Administrative Penalty arrangement, which means they have to repay the debt and an additional sum on top of this. Again, this is an alternative means of disposal. Three customers were prosecuted as a result of their fraudulent activity. The remaining 29 cases were closed as 'no further action'.
- 5.4 In the same year, £70,634.76 was detected as a fraudulent overpayment in Housing Benefit. A further £14,494.39 was identified as a fraudulent overpayment in Council Tax Benefit.
- 5.5 This service costs £42,000 per annum to operate. However, the funding is provided by Central Government as part of the current administration subsidy.
- 5.6 Under the Government's agenda for welfare reform, these arrangements are expected to change to accommodate a new Single Investigation Service, which will be hosted by the Department for Work and Pensions (DWP). Housing Benefit and Residual Council Tax Benefit will become the responsibility of the DWP to administer and investigate. These changes are likely to take effect before the end of 2014.

6. COUNTER FRAUD ACTIVITY

- 6.1 Blue Badges: three instances of misuse was recorded by Blue Badge holders (or their relatives) during 2013/2014. On each of these occasions, a warning letter was issued to the customer explaining the consequences of allowance others to use their Badge. No further action was taken.
- 6.2 Duplicate Payments Audit: Towards the end of 2012-2013 the Council commissioned an external company to undertake a review of payments to identify whether any duplicate payments had been made. The review, which concluded in early 2013, did not highlight any duplicate payments.
- 6.3 Single Persons Discount: The Council commissioned an external company to undertake a review of Single Persons Discount. This involved the company verifying that individuals are still eligible for discounts. This work resulted in a saving to the Council of £39,807.
- 6.4 Payroll: Following the 'pay audit' in 2013, the Council undertook a review of payroll processes to ensure they were fit for purpose. This

included a review of controls in place to prevent and detect typical payroll frauds. A number of changes were made to tighten up procedures.

7. NATIONAL FRAUD INITIATIVE

- 7.1 The National Fraud Initiative requires the Council to undertake annual exercises involving the collection and uploading of selected data and subsequent investigation of matches to determine whether they provide evidence of fraud or losses due to error.
- 7.2 The responsibility for this work has now passed to the Head of Corporate Governance, who will continue to liaise with officers within areas where data has been matched.
- 7.3 During 2013-2014 the NFI provided the Council with 1600 matches to investigate. All have been reviewed and the results summarised in the table below.

Results of Investigations of NFI Matches			
Category of Match	Number Reported	Number Validated	Identified loss to Council
Benefits	263	7	Unknown ¹
Payroll	22	0	£0.00
Creditors	895	2	£840
Blue Badges	230	0	£0.00
Care Homes	9	0	£0.00
Concessionary Travel	211	0	£0.00
Insurance	1	0	£0.00
Totals	1631	9	£840
Note			
1. Until CRAFT completes formal investigations the existence of fraud cannot be confirmed/ quantified.			

- 7.4 The absence of significant matches provides assurance that the Council's general arrangements to manage its inherent exposure to the risk of fraud are effective.

8. FRAUD SURVEY

- 8.1 Each year, the Council participates in a national survey, which is administered by the Audit Commission under section 48 of the Audit Commission Act 1998. The results of this survey feed into the Commission's annual report 'Protecting the Public Purse'. This publication gives details on amounts of detected fraud, warns of emerging fraud risks and promotes best practice. The Council will continue to refer to guidance from professional bodies, such as CIPFA, when assessing risks and the proportionality of its approach to fraud in the future. The results of the 2013-2014 survey will be published during November 2014.

9. TRAINING AND AWARENESS

9.1 Until recently the Head of the Welland Internal Audit Consortium delivered an annual briefing to all officers to reinforce the message about standards of behaviour and to publicise arrangements to deal with the risks of fraud. The briefing was reinforced by a One Council newsletter article. Additionally, all new officers were briefed on fraud during their induction presentation.. With effect from September 2014, the responsibility for counter fraud arrangements transferred to the Head of Corporate Governance, who will continue to build on the good work already undertaken by the Head of Welland Internal Audit Consortium.

10. WHISTLEBLOWING - REPORTING CONCERNS

10.1 The Council's Whistleblowing Policy was approved in May 2013. This Policy is a key element in promoting good governance and encouraging reports of fraud, corruption or other types of impropriety. The Policy makes it clear that any employee can make a report without fear of victimisation, subsequent discrimination or disadvantage.

10.2 The Council received no whistleblowing disclosures during 2013-2014.

11. FRAUD RISK REGISTER

11.1 The Council is currently developing a comprehensive register of fraud risks that might occur in a series of typical administrative situations alongside the control measures that could be used to address them. This will be presented to the Audit and Risk Committee for discussion in due course.

12. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	Low	The recommendation can be implemented immediately within minimal officer input.
Viability	Low	As above.
Finance	Low	There are no direct financial implications arising as a result of this report.
Profile	Low	There may be some public interest in the content but this is unlikely to be significant.
Equality and Diversity	Low	No impact assessment has been carried out as there are no direct implications.

Background Papers
None.

Report Author
Diane Baker
Tel No: (01572) 722577
e-mail: enquiries@rutland.gov.uk

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.